

DISCUSSION PAPER

Carbon Accounting: Too Little Too Late?

ACCA contributes to the debate on technical issues affecting business and accountancy, legislation, and professional standards both in the UK and internationally.

**For our published work on all these activities visit
www.accaglobal.com/publicinterest/activities**

Humanity has a long period of radical change ahead. This is clearly needed to sustain corporate activity while reducing our impact on the changing climate, addressing the needs of a demanding society and reflecting global movements towards greater accountability and responsibility.

Please visit www.accaglobal.com/sustainability for more information about ACCA's sustainability work.



Rachel Jackson is head of social and environmental issues at ACCA and is a leading contributor to ACCA's responses to global developments in this area.

CARBON ACCOUNTING TOO LITTLE TOO LATE?

Most of the observed increase in global average temperatures since the mid-20th century is very likely (>90% likelihood) due to the observed increase in anthropogenic greenhouse gas concentrations. The potential threat can not be overstated.

IPCC's FOURTH REPORT (*CLIMATE CHANGE, 2007*)

Although some influential political leaders appear to have woken up to the enormity of the issue of climate change, they are taking their time to consider how to mitigate the impacts of climate change while continuing to rely on fossil fuels and without losing the popular vote. In contrast, some major global organisations are pressing ahead and actively responding to the challenge.

THE BUSINESS RESPONSE

British Telecom plc (BT), for example is the UK's biggest customer of green electricity. It has recently announced it will build its own wind farms which will be operational by 2012 and provide 25% of their UK electricity needs by 2016. BT has a comprehensive, detailed climate change strategy covering its operations, customers, employees and suppliers. In 2007, its chief executive pledged to lead in the business response to climate change. There are many more corporations leading the way, including BMW AG, Rio Tinto plc and Energias de Portugal SA who have been winners in the 'best carbon disclosure' category of www.CorporateRegister.com's reporting awards, judged by readers of such reports. A recent research project by CERES has found that IBM, Tesco and Dell are the leading companies, from a sample of 63, in addressing climate change through board or director duty, management execution, public disclosure, GHG emissions accounting and strategic planning and performance. EIRIS have found that 84% of high and very high risk companies within the largest 300 FTSE All World Index have a corporate-wide climate change commitment.

ORGANISATIONS: DRIVERS FOR CHANGE

As well as direct activity, pressure is mounting for corporate change via the lobbying and targeted work of influential organisations. Corporate coalitions, such as the World Business Council for Sustainable Development (WBCSD), which was founded on the eve of the world's first Earth Summit in 1992 to give businesses a voice in sustainable development matters, dedicates one of its four work streams to 'energy and climate'. This focus area addresses policy and frameworks, business facts and trends, tools and practices and capacity building initiatives. WBCSD was ranked second in a list of organisations that will play a major role over the coming years in advancing sustainable development (SD) (Globescan 2006) and its membership consists of 200 CEO's from over 30 countries, all attempting to meet the organisation's objective of being a leading business advocate on sustainable development.

THE CARBON DISCLOSURE PROJECT

In an ideal world investors, businesses and other key stakeholders in capital markets would collaborate to adapt investment practices to account for a changed climate by integrating climate change models into such processes. Realistically, this is a long way off although there is a groundswell of pressure from investors via the Carbon Disclosure Project (CDP). The CDP is now a heavyweight in the financial world. Its mission is 'to facilitate a dialogue between investors and corporations supported by quality information from which a rational response to climate change will emerge'. Such information is collated by a survey and covers carbon risks and opportunities, greenhouse gas (GHG) emissions accounting, GHG performance, and climate change governance. The CDP has grown from having an original set of 35 investors (US\$4.5 trillion assets) in 2003 with 500 companies taking part in the survey, to an impressive 385 signatory investors (US\$57 trillion) in 2008 with 3,000 companies responding to the CDP survey. More importantly, they are seeing a change in the quality and quantity of carbon information for the better.

CORPORATE CLIMATE CHANGE DISCLOSURES

The corporate response to climate change has stimulated a range of organisations, from non-governmental organisations (NGOs) and accountancy firms, to consultancies and think-tanks, to research and initiate projects on climate change. Emerging from their work is a plethora of trend-gazing with regards to climate change reporting – collectively, the main messages from such work are that:

- progress has been made but climate change reporting is still very much in the early stages and there is considerable scope for improvement
- comparability between data sets is difficult as no specific carbon reporting or international carbon accounting standard exists
- the majority of the largest quoted companies and multinationals now disclose some meaningful carbon information (policies, quantitative emissions trend data, alignment with the World Resources Institute/WBCSD GHG Protocol) but significantly more needs to be done by the mass of unlisted, unquoted corporations and public sector organisations
- specific areas of carbon disclosure are clearly lagging, with only a handful leading the way with a broader spectrum of carbon issues being reported on, such as: adaptation strategies, product impacts, transformational initiatives, assurance of carbon disclosures and carbon governance
- climate change is not just an environmental issue but influences many other social and economic factors, such as poverty, health and economic development, and should be considered in this wider context.

As these issues become more critical, it is thought that climate change disclosures are expected to become more frequent and prominent in the annual report and accounts as companies develop their strategic responses to climate change and carbon constraints. And given the increasing political importance of climate change and the opportunity this brings for corporate influence, disclosing company public policy positions and lobbying policies will become a critical aspect of transparency.

KYOTO, POZNAN AND COPENHAGEN

The United Nations Climate Change Conference in Poznan [showed a] clear commitment from governments to shift into full negotiating mode [in 2009] in order to shape an ambitious and effective international response to climate change, to be agreed in Copenhagen.

UNITED NATIONS, 2008

The Kyoto Protocol, which was agreed in 2005 and places binding emission reduction targets on 37 developed countries, has no targets set beyond 2012. The recent talks in Poznan (Conference of Parties (COP) 14) saw ministers re-endorse the goal of completing a pact to curb GHGs beyond 2012 and to help less-developed countries that are exposed to the impacts of climate change. The talks opened the way to launch an Adaptation Fund (a mechanism for providing finance to help poorer countries cope with climate change). Progress was also made on a number of ongoing issues that are particularly important for developing countries, including reducing emissions from deforestation and forest degradation. The aim of the Copenhagen meeting (COP 15), at the end of 2009, is to agree the targets beyond Kyoto 2012. It is not known whether targets will be tightened, and therefore restrain governments and businesses even more, but the meeting cannot fail to reiterate the crisis that climate change will bring unless radical, collaborative action is taken. Lord Stern's calculation, (published in his *Economics of Climate Change* review) that tackling climate change will cost 1% of GDP and that the consequences of not acting could cost up to 20 times that, cannot be stressed enough and makes it foolhardy to ignore.

CLIMATE CHANGE AND THE ACCOUNTANCY PROFESSION

In acknowledgement of the fact that climate change is so fundamental to the future, ACCA has prioritised the consideration of it – after all, the typical accounting professional has a pivotal position within an organisation and is well qualified to make a vital contribution toward climate change policy and implementation, in areas such as:

- evaluating the returns on low-carbon investment proposals
- developing organisation-relevant carbon and GHG KPIs and related measurement protocols
- advising employers and clients about how emissions trading regimes operate and developing related response strategies

- providing improved disclosure of information on companies' carbon and GHG emissions and climate change risks through the annual report and accounts
- auditing and assuring carbon and GHG disclosures
- advising employers and clients as to the best courses to take in adapting to climate change, including the probable investment costs and returns from such investments
- generally quantifying and profiling the financial consequences of climate change.

To achieve these results on an international scale requires collaborative and concentrated effort. ACCA is doing its part but cannot effect such fundamental change alone. As a start, within the profession, all accountancy bodies should implement post-qualification training programmes for members in public practice, and the private and public sectors, focusing especially upon issues relating to emissions trading schemes, carbon intensity and risk, and emissions disclosure and verification. Accountancy professional bodies then need to look at the syllabus to influence and prepare today's students for tomorrow's world, which ACCA has done already.

In order to achieve larger, more influential and more radical change (which reflects the urgency of this pressing issue) – it is the accounting standard-setters that should 'up their game'. As noted above, a few leading companies are disclosing carbon data but it is done in an incomparable and inconsistent way – and only on a voluntary basis. A recent report from the Ethical Corporation Institute claimed, in a survey of FTSE 500 companies, to have uncovered 34 different carbon emission measurement methodologies. Such a large variation in practice cannot be helpful to a financial market facing increasing emphasis on carbon exposure and climate change risk.

STANDARDS AND LEGISLATION

Environmental regulators should work with accounting standard-setters to develop a universally applicable climate change reporting and auditing standard for organisations of all sizes.

ACCA, *GOING CONCERN*, 2008.

Increasingly, governments are setting carbon reduction targets at the level of the national economy without providing the measurement tools for companies and other organisations to be able to meet those targets. ACCA believes a standard designed to account for carbon emissions represents a new chapter in accounting standard setting. ACCA acknowledges that the design of

such a standard would, of necessity, be a multi-disciplinary exercise. At the very least, the project team would need to contain economists, chemists and engineers as well as accounting professionals.

One example of a major collaborative and international effort is the Carbon Disclosure Standards Board (CDSB). The CDSB 'is a consortium of seven business and environmental organisations that has been formed for the purpose of jointly advocating a generally-accepted framework for corporations to report climate change risks and opportunities, carbon footprints, and carbon reduction strategies and their implications for shareholder value'. It has a large advisory panel, representing a wide stakeholder group which includes ACCA, and aims to have the first framework published late 2009 to coincide with the Copenhagen conference.

On a national basis, both the UK Government's Department of Environment, Food and Rural Affairs (Defra) and the Confederation of British Industry (CBI) are separately producing carbon reporting guidelines, which are due out in 2009. In 2008, the Climate Change Bill became law in the UK. This bill is the first long-term legally binding framework to tackle the dangers of climate change. It outlines the UK's approach to managing and mitigating climate change through setting ambitious targets, taking powers to help achieve them, strengthening the institutional framework, and enhancing the UK's ability to adapt to the impact of climate change. From April 2012, large and medium sized enterprises will be required, by law, to report on their carbon emissions. In addition, the Climate Change Bill compliments another piece of UK Governmental policy – the Carbon Reduction Commitment – which involves the introduction of a UK based emissions trading scheme, similar to the EU Emissions Trading Scheme. This calls on around 5,000 organisations, including hospitals, schools, universities and corporations, to participate in the scheme to reduce their emissions. Reporting and target setting will be a part of this scheme.

THE WAY FORWARD

We face an interesting future. An international generally accepted carbon reporting standard and carbon accounting standard have yet to materialise, but developments and collaborators will be fascinating to watch. ACCA remains certain that the accounting profession's most significant contribution – and one of the most influential for the business world – would be for its own accounting standard-setter body to publish a carbon accounting standard.

The human race is at an important crossroad and will require all its famed ingenuity to continue to develop. Human history shows our ability to rise to challenges: think, for example of the programme of public health infrastructure in Victorian Britain, or the digital revolution of the last three decades. The accounting profession must play its part in correcting the greatest and widest-ranging market failure ever seen.

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 122,000 members and 325,000 students throughout their careers, providing services through a network of 80 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

TECH-TP-TLT